

TOWNSHIP OF READING
HILLSDALE COUNTY, MICHIGAN

AUDIT REPORT

MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit or Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF READING	County HILLSDALE
Fiscal Year End MARCH 31, 2006	Opinion Date SEPTEMBER 29, 2006	Date Audit Report Submitted to State OCTOBER 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, PC		Telephone Number (517) 849-2410	
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State MI
		Zip 49250	
Authorizing CPA Signature 		Printed Name GREGORY J BAILEY	License Number 1101022915

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Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and
Members of the Township Board
Township of Reading
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Reading as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The scope of our audit did not include verification of the fund balances and net assets at April 1, 2005. Therefore, we are unable to express an opinion on the accompanying statements of fund balances and net assets.

In our opinion, except for the effect of the item referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Reading as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of March 31, 2006.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and pages 22 through 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Reading's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Bailey, Hodshire + Company, P.C.

September 29, 2006
Jonesville, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
READING TOWNSHIP
HILLSDALE COUNTY, MICHIGAN

This section of Reading Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements which follow this section. As stated in Note 1 to the financial statements, the Township is implementing the requirements of GASB 34 in this year's audit. Certain required comparative information between the current year and the prior year is being omitted from this presentation as allowed by GASB 34 in the first year of implementation. Subsequent reports will include the comparative information.

Financial Highlights

- The Township's total combined net assets increased by \$25,879 between April 1, 2005 and March 31, 2006.
- The general fund reported a fund balance of \$261,275, which is an increase of \$10,196 from the prior year.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps explain the condition of the Township. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows the net assets of the Township as of the end of the year:

TABLE 1 - NET ASSETS

Assets:	
Current assets	\$ 261,275
Noncurrent assets	<u>265,576</u>
Total assets	<u>\$ 526,851</u>
Liabilities:	
Current liabilities	\$ 0
Long-term liabilities	<u>85,000</u>
Total liabilities	<u>\$ 85,000</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 185,349
Restricted	0
Unrestricted	<u>256,502</u>
Total net assets	<u>\$ 441,851</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
READING TOWNSHIP
HILLSDALE COUNTY, MICHIGAN

The following table shows the changes in the net assets during the year:

TABLE 2 - CHANGE IN NET ASSETS

Program Revenue:	
Charges for services	\$ 49,495
Capital grants and contributions	5,528
General Revenue:	
Property tax	48,138
State shared revenue	120,286
Unrestricted investment earnings	5,926
Other	<u>10,972</u>
Total revenue	<u>\$ 240,345</u>
Expenses:	
General Government	\$ 115,067
Public Safety	25,123
Public Works	69,065
Culture & Recreation	<u>5,211</u>
Total expenses	<u>\$ 214,466</u>
INCREASE IN NET ASSETS	<u>\$ 25,879</u>

Governmental Activities

Total revenues for the year decreased considerably from the previous year, but this is because of some special revenue in the previous year (\$100,000 loan and \$5,000 in Federal grants); otherwise, there would have been about a 7% increase. Expenses were decreased considerably. A very large amount of this was the fact that a Fire Truck was purchased the previous year and a record amount was spent on roads in the previous year. The road expenditures for 2005-06 were more in line with an "average" year. The Planning Commission expenditures were considerably higher in 2005-06 (nearly double the previous year). During the year, the Township Board continued to monitor the revenues and expenditures of each fund.

The Township's Funds

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Reading Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Reading Township presently uses governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS READING TOWNSHIP HILLSDALE COUNTY, MICHIGAN

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Reading Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. The Cemetery Fund and Transfer Station Fund are also used by Reading Township. These are considered non-major funds. Each of these funds has their own sources of revenue, but they also require a transfer from General Fund to cover their total expenditures. Data from these other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 24-25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the governmental unit. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. Reading Township uses a Tax Collection Fund for the collection and disbursement of real and personal property taxes to various taxing units.

General Fund Budgetary Highlights

Over the course of the year, the Township Board may amend the budget if necessary. The General Fund did not require any adjustments for 2005-06.

Capital Asset and Debt Administration

The Township made capital assets additions during the year with the purchase and installation of central air conditioning in the township hall building and with the addition of a Model M-100 Optical Scan Vote Tabulator. The Optical Scan Vote Tabulator was provided through a federal grant that was administered through the State of Michigan, so there was no actual cost to the Township. The long-term loan amount due on the fire truck was reduced by \$10,000 during the year.

There was a continued investment in the roads within the Township. The road work is done with the cooperation of the Hillsdale County Road Commission which performs (or contracts) the work and shares in the costs (according to their cost share policy). This infrastructure is not reported on the Township's financial statements because the roads are not the property of the Township.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2006-2007 is expected to be very similar to the 2005-06 budget. Revenues are expected to be very similar for the two years. Expenses are expected to be only slightly higher.

MANAGEMENT'S DISCUSSION AND ANALYSIS
READING TOWNSHIP
HILLSDALE COUNTY, MICHIGAN

Economic Factors and Next Year's Budgets and Rates (continued)

The Township's cost for road projects is expected to be \$60,000 (an increase of \$10,000). The Township spending is only a portion (usually 50%) of what is actually spent on these projects as the Hillsdale County Road Commission normally contributes the remainder of the money.

Planning Commission expenses are expected to be more than normal again this coming year. A big project for the Planning Commission for the coming year, now that a Master Land Use Plan is in place, is to review the zoning ordinance for possible revisions along with the possible development of other ordinances. This will be done to make the zoning ordinance more in line with the Master Land Use Plan.

The election process will change. The lever-type mechanical voting machines will no longer be used. These have been replaced with an optical scan type of voting system that will be uniform throughout Hillsdale County. While there have been several schools elections held for the first time in the Township Hall with the new Optical Scan type of voting, there are two "Township conducted elections" scheduled for the upcoming year - - the August primary election and then the general election in November.

The Township Hall building improvement will continue with the replacement of interior doors and replacement of a majority of the carpeting.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Reading Township Clerk.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF READING
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

Cash & investments	\$ 233,125
Taxes receivable	18,184
Prepaid expenses	9,966
Investment in joint venture	80,227
Capital assets - net	<u>60,350</u>
Total assets	<u>\$ 401,852</u>

LIABILITIES

Long-term liabilities:

Due within one year	\$ 10,000
Due in more than one year	<u>75,000</u>
Total liabilities	<u>\$ 85,000</u>

NET ASSETS

Investment in capital assets, net of related debt	\$ 60,350
Unrestricted	<u>256,502</u>
Total net assets	<u>\$ 316,852</u>
Total liabilities and net assets	<u>\$ 401,852</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government	\$ 115,067	\$ 37,432	\$ 0	\$ 5,528	\$ (72,107)
Public Safety	25,123	0	0	0	(25,123)
Public Works	69,065	12,063	0	0	(57,002)
Culture & Recreation	<u>5,211</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,211)</u>
Total	<u>\$ 214,466</u>	<u>\$ 49,495</u>	<u>\$ 0</u>	<u>\$ 5,528</u>	<u>\$(159,443)</u>

General Revenues:

Property tax, levied for general purposes	\$ 48,138
State shared revenue	120,286
Unrestricted investment earnings	5,926
Other	<u>10,972</u>

Total General Revenues \$ 185,322

Change in Net Assets \$ 25,879

Net Assets - Beginning 290,973

Net Assets - Ending \$ 316,852

The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash & investments	\$ 233,125	\$ 0	\$ 233,125
Taxes receivable	6,733	0	6,733
Prepaid expenditures	9,966	0	9,966
Due from agency fund	<u>11,451</u>	<u>0</u>	<u>11,451</u>
Total assets	<u>\$ 261,275</u>	<u>\$ 0</u>	<u>\$ 261,275</u>
LIABILITIES AND FUND EQUITY			
Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Fund Equity:			
Fund Balance			
Reserved	\$ 0	\$ 0	\$ 0
Unreserved			
Designated for fire equipment	2,254	0	2,254
Undesignated	<u>259,021</u>	<u>0</u>	<u>259,021</u>
Total fund equity	<u>\$ 261,275</u>	<u>\$ 0</u>	<u>\$ 261,275</u>
Total liabilities and fund equity	<u>\$ 261,275</u>	<u>\$ 0</u>	<u>\$ 261,275</u>

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to the Net Assets of Governmental Activities on the Statement of Net Assets

Fund Balances - total governmental funds \$ 261,275

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	88,497
Deduct: Accumulated depreciation	(28,147)
Long-term liability for the fire truck loan is not due and payable in the current period, so it is not reported in the financial statements	(85,000)
The investment in the joint venture Fire Department is reported in the government-wide financial statements	<u>80,227</u>
	<u>\$ 316,852</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUE			
Property taxes	\$ 48,138	\$ 0	\$ 48,138
Tax administration fees	17,322	0	17,322
State shared revenue	120,286	0	120,286
Charges for services	19,135	13,038	32,173
Franchise fees	5,950	0	5,950
Interest income	5,926	0	5,926
Miscellaneous	<u>10,550</u>	<u>0</u>	<u>10,550</u>
Total revenue	<u>\$ 227,307</u>	<u>\$ 13,038</u>	<u>\$ 240,345</u>
EXPENDITURES			
General Government	\$ 117,446	\$ 7,704	\$ 125,150
Public Safety	30,723	0	30,723
Public Works	53,087	15,978	69,065
Culture and Recreation	<u>5,211</u>	<u>0</u>	<u>5,211</u>
Total expenditures	<u>\$ 206,467</u>	<u>\$ 23,682</u>	<u>\$ 230,149</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 20,840</u>	<u>\$ (10,644)</u>	<u>\$ 10,196</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 0	\$ 10,644	\$ 10,644
Operating transfers out	<u>(10,644)</u>	<u>0</u>	<u>(10,644)</u>
Total other financing sources (uses)	<u>\$ (10,644)</u>	<u>\$ 10,644</u>	<u>\$ 0</u>
NET CHANGES IN FUND BALANCES	<u>\$ 10,196</u>	<u>\$ 0</u>	<u>\$ 10,196</u>
FUND BALANCES - beginning	<u>251,079</u>	<u>0</u>	<u>251,079</u>
FUND BALANCES - ending	<u>\$ 261,275</u>	<u>\$ 0</u>	<u>\$ 261,275</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
Reconciliation of Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Net changes in fund balances - total governmental funds	\$ 10,196
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	11,758
Deduct: depreciation expense	(1,675)

Current year long-term debt principal payments on the fire truck note are expenditures in the fund financial statements, but are shown as reduction in long-term debt in the government-wide financial statement.	10,000
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Net loss from the joint venture Fire Department is not recorded in the fund financial statements, but is recorded in the government-wide financial statements	<u>(4,400)</u>
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Change in net assets of governmental activities	<u><u>\$ 25,879</u></u>
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The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUND
MARCH 31, 2006

ASSETS

Cash

\$ 11,451

LIABILITIES

Due to Township general fund

\$ 11,451

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Reading is located in Hillsdale County, Michigan, and comprises a population of approximately 1,781 residents. It is governed by a board consisting of 5 members with a supervisor as its head.

The accounting policies of the Township of Reading conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June, 1999, the GASB approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:
A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
Financial statements prepared using full accrual accounting for all of the Township's activities, including fixed assets (buildings, equipment, vehicles, etc.)
- A change in the fund financial statements to focus on major funds.

The Township has elected to implement the provisions of the Statement in the current year; therefore, these and other changes are reflected in the accompanying financial statements and notes to the financial statements.

The following is a summary of significant accounting policies used by the Township of Reading:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Township consists of all funds, departments, boards and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt, or the levying of taxes. The Township has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from these statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, state shared revenue, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Under the modified accrual basis, property taxes, state shared revenue, interest, and grants are considered to be both measurable and available at fiscal year-end. All other revenue items are considered to be available only when cash is received by the Township.

Financial Statement Presentation

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Township reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following governmental funds are considered nonmajor:

Cemetery Fund - established as a special revenue fund to account for the revenue and expenditures associated with Township cemeteries.

Transfer Station - established as a special revenue fund to account for the revenue and expenditures associated with garbage service available to Township residents.

Additionally, the Township reports the following fund type:

Fiduciary Fund/Trust and Agency Fund

Tax Collection Fund - used to account for property taxes collected from residents on behalf of the Township along with other governmental units in the county. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and investments are reported at cost.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Township maintains a capitalization threshold of \$5,000. The Township does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40-60 years
Building improvements	15-30 years
Furniture & fixtures	20 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - JOINT VENTURE

The Township is a participant in a joint venture agreement with the City of Reading for the operation of the Reading Community Fire Department (the "Department"). In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the ongoing financial responsibility of the Department's operations agreed to by the municipalities pursuant to the contractual agreement. The Township and City each appoint two members of the four-member Fire Board which oversees the operations. The Township and City each have a 50 percent ownership in the venture, with each entity having provided an equal initial investment of firefighting equipment and building as existed in 1973.

The Fire Department reported expenses in excess of revenue in the amount of \$8,800 for its year ended April 30, 2006. Reading Township has reported \$4,400 (50%) of the expenses over revenue in its Statement of Activities. The Township's investment in the joint venture is reported in the Statement of Net Assets in the amount of \$80,227. The financial activity of the Fire Department for its year ended April 30, 2006 has not been audited, and we were not engaged to audit the Fire Department's financial statements as part of our audit of the Township's basic financial statements.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Township Board at the activity level. Any budgetary modifications may only be made by resolution of the Township Board. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to March 31, the Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2) A public hearing is conducted during March to obtain taxpayer comments.
- 3) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Elections	\$ 6,000	\$ 7,970	\$ 1,970

This overage was due to the receipt of an Optical Scan Voting Machine through a \$5,528 Federal grant.

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of March 31, 2006, the Township's deposits are in accordance with statutory authority.

Deposits

Following are the components of the Township's bank deposits at March 31, 2006:

Checking Accounts	\$ 20,674
Savings Accounts	<u>212,451</u>
Total	<u>\$ 233,125</u>

Custodial credit risk of deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At March 31, 2006, the carrying amount of the Township's deposits was \$233,125 and the bank balance was \$243,666. Of the bank balance, \$100,000 was covered by federal depository insurance and \$143,666 was uninsured. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

There were no investments held during the year.

NOTE 5 - RECEIVABLES

Receivables at March 31, 2006, consist of property taxes and are considered collectible in full.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances at March 31, 2006, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	<u>\$ 11,451</u>	Tax Collection Fund	<u>\$ 11,451</u>

Interfund transfers during the year consisted of the following:

Transfer from Tax Collection Fund to General Fund	\$ 68,477
Transfer from General Fund to Cemetery Fund	6,729
Transfer from General Fund to Transfer Station Fund	3,915

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES (continued)

The amount due to General Fund from the Tax Collection Fund represents Township property taxes that have been collected but not yet transferred to General Fund.

The transfers from General Fund to Cemetery Fund and Transfer Station Fund were made to cover the normal shortfall of revenue under expenditures in those funds.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 7,501	\$ 0	\$ 0	\$ 7,501
 Capital assets being depreciated				
Buildings & Improvements	\$ 69,238	\$ 6,230	\$ 0	\$ 75,468
Furniture & Equipment	<u>0</u>	<u>5,528</u>	<u>0</u>	<u>5,528</u>
Subtotal	\$ 69,238	\$ 11,758	\$ 0	\$ 80,996
 Less accumulated depreciation for				
Buildings & Improvements	\$ (26,472)	\$ (1,675)	\$ 0	\$ (28,147)
Furniture & Equipment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$ (26,472)	\$ (1,675)	\$ 0	\$ (28,147)
 Total capital assets being depreciated, net	\$ 42,766	\$ 10,083	\$ 0	\$ 52,849
Total capital assets, net	<u>\$ 50,267</u>	<u>\$ 10,083</u>	<u>\$ 0</u>	<u>\$ 60,350</u>

Depreciation expense was charged to functions/programs of the Township as follows:

General Government	<u>\$ 1,675</u>
--------------------	-----------------

NOTE 8 - LONG-TERM DEBT

In the 2004-05 fiscal year, the Township borrowed \$100,000 to help fund 50% of the cost of a new fire truck for the joint venture fire department with the City of Reading. The loan is with County National Bank, carries an interest rate of 3.7%, and is secured by the fire truck.

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 8 - LONG-TERM DEBT (continued)

The following is a summary of changes in long-term debt for the year ended March 31, 2006:

	Balance <u>April 1, 2005</u>	<u>Issued</u>	<u>Retired</u>	Balance <u>March 31, 2006</u>	Due Within <u>One Year</u>
Fire Truck loan	\$ <u>95,000</u>	\$ <u>0</u>	\$ <u>10,000</u>	\$ <u>85,000</u>	\$ <u>10,000</u>

The annual debt service requirements are as follows:

<u>Year Ending</u> <u>March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2007	\$ 10,000	\$ 3,052	\$ 13,052
2008	10,000	2,683	12,683
2009	10,000	2,312	12,312
2010	10,000	1,943	11,943
2011	10,000	1,572	11,572
2012 - 2015	<u>35,000</u>	<u>2,590</u>	<u>37,590</u>
	\$ <u>85,000</u>	\$ <u>14,152</u>	\$ <u>99,152</u>

NOTE 8 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in an amount equal to the total taxes levied. There are no provisions made for possible uncollectible taxes. The total levy for 2005 was .7359 mills for general operations on a total state taxable valuation of approximately \$62,350,000. The Township properties are assessed as of December 31 (the lien date), taxes levied December 1 of the succeeding year and due without interest to March 1. After March 1, the delinquent taxes real portion are turned over to the County Treasurer for collection. The personal properties continue to be collectible by the Township Treasurer.

NOTE 9 - DEFERRED COMPENSATION PLAN

On June 10, 1991, the Township of Reading adopted and implemented an Employee Deferred Compensation Plan with the Lincoln National Life Insurance Company. This plan covers each person within the following classes of officers and employees: all members of the Township Board and any employee who is willing to meet the requirements of the plan. Specifically excluded from participation in the plan are independent contractors. The Township of Reading contributes a percentage of all wages and salaries towards a qualified annuity or pension contract for each person within the class of officers and employees enumerated in the plan. This percentage of Township contribution is determined by the Township Board prior to the anniversary date of the plan each year. Any change to this rate of participation must have been approved at the most recent annual meeting of the Township. The percentage shall never exceed 7.5%. The Township's contributions are secured from the general fund of the Township. Each eligible officer or employee is responsible for the remainder of the premium, charges, or minimum required contribution, and the Township Treasurer is authorized to deduct these amounts from each person's pay, salary, or compensation.

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages, and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 11 - UNEMPLOYMENT TAXES

The Township is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

NOTE 12 - RELATED PARTY TRANSACTIONS

At its November, 2005 meeting, the Township Board approved a contract with Ben Wheeler Company for assessment services. Ben Wheeler is the son of Roger Wheeler, Township Clerk, and Judy Wheeler, Township Treasurer. The contract was awarded on a competitive bid basis. Payments to Ben Wheeler Company for the year ended March 31, 2006, totaled \$4,948.

NOTE 13 - COMMITMENTS

At its February, 2006, meeting, the Township Board approved various contracts with the Hillsdale County Road Commission totaling \$24,621 (Township share) for road projects to be completed in the 2006-07 fiscal year.

NOTE 14 - RESTATEMENTS

As of and for the year ended March 31, 2006, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*

No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*

No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

No. 38 - *Certain Financial Statement Disclosures*

Interpretations

No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

TOWNSHIP OF READING
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 14 - RESTATEMENTS - (continued)

As a result of implementing these pronouncements for the year ended March 31, 2006, the following restatements were made to the beginning fund balance and net asset accounts:

Fund Balances of Governmental Funds as of March 31, 2005	\$ 251,079
Add: governmental capital assets as of March 31, 2005	76,739
investment in joint venture Fire Department	84,627
Deduct: accumulated depreciation as of March 31, 2005, on the above assets	(26,472)
balance due on fire truck purchased jointly with City of Reading	<u>(95,000)</u>
Governmental net assets, restated, as of March 31, 2005	<u>\$ 290,973</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF READING
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 251,683	\$ 251,683	\$ 241,113	\$ (10,570)
Resources (inflows)				
Property taxes	42,000	42,000	48,138	6,138
Tax administration fees	14,000	14,000	17,322	3,322
State shared revenue	108,000	108,000	120,286	12,286
Charges for services	4,200	4,200	19,135	14,935
Franchise fees	8,000	8,000	5,950	(2,050)
Interest income	500	500	5,926	5,426
Miscellaneous	<u>0</u>	<u>0</u>	<u>10,550</u>	<u>10,550</u>
Amounts available for appropriation	<u>\$ 428,383</u>	<u>\$ 428,383</u>	<u>\$ 468,420</u>	<u>\$ 40,037</u>
Charges to appropriations (outflows)				
General Government				
Township Board	\$ 30,000	\$ 30,000	\$ 20,907	\$ (9,093)
Supervisor	9,000	9,000	6,782	(2,218)
Elections	6,000	6,000	7,970	1,970
Assessor	20,000	20,000	17,166	(2,834)
Clerk	12,000	12,000	10,844	(1,156)
Board of Review	1,200	1,200	963	(237)
Treasurer	22,000	22,000	19,006	(2,994)
Data processing	11,000	11,000	646	(10,354)
Township hall	12,000	12,000	11,413	(587)
Planning Commission	24,000	24,000	21,749	(2,251)
Public Safety				
Fire contract	41,000	41,000	30,723	(10,277)
Public Works				
Roads	88,000	88,000	50,032	(37,968)
Street lights	2,000	2,000	1,709	(291)
Drains	1,500	1,500	1,346	(154)
Culture and Recreation				
Parks	500	500	0	(500)
Library	7,000	7,000	5,211	(1,789)
Transfers to other funds	<u>18,000</u>	<u>18,000</u>	<u>10,644</u>	<u>(7,356)</u>
Total charges to appropriations	<u>\$ 305,200</u>	<u>\$ 305,200</u>	<u>\$ 217,111</u>	<u>\$ (88,089)</u>
End of year fund balance	<u>\$ 123,183</u>	<u>\$ 123,183</u>	<u>\$ 251,309</u>	<u>\$ 128,126</u>

TOWNSHIP OF READING
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
MARCH 31, 2006

NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Elections	\$ 6,000	\$ 7,970	\$ 1,970

OTHER SUPPLEMENTARY INFORMATION

TOWNSHIP OF READING
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 MARCH 31, 2006

	Cemetery <u>Fund</u>	Transfer Station <u>Funds</u>	Total Nonmajor Governmental <u>Funds</u>
ASSETS	\$ 0	\$ 0	\$ 0
LIABILITIES AND FUND EQUITY			
Liabilities	\$ 0	\$ 0	\$ 0
Fund Equity:			
Fund Balance			
Reserved	\$ 0	\$ 0	\$ 0
Unreserved/Undesignated	0	0	0
Total fund equity	\$ 0	\$ 0	\$ 0
Total liabilities and fund equity	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
 COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2006

	Cemetery Fund	Transfer Station Fund	Total Nonmajor Governmental Funds
REVENUE			
Charges for services	\$ 975	\$ 12,063	\$ 13,038
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
Total revenue	<u>\$ 975</u>	<u>\$ 12,063</u>	<u>\$ 13,038</u>
EXPENDITURES			
General Government			
Cemetery	\$ 7,704	\$ 0	\$ 7,704
Public Works			
Sanitation	<u>0</u>	<u>15,978</u>	<u>15,978</u>
Total expenditures	<u>\$ 7,704</u>	<u>\$ 15,978</u>	<u>\$ 23,682</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ (6,729)	\$ (3,915)	\$ (10,644)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	6,729	3,915	10,644
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 6,729</u>	<u>\$ 3,915</u>	<u>\$ 10,644</u>
NET CHANGES IN FUND BALANCES	\$ 0	\$ 0	\$ 0
FUND BALANCES - beginning	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF READING
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
ASSETS				
Cash	\$ 9,584	\$ 1,655,566	\$ 1,653,699	\$ 11,451
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Due to Other Funds	\$ 9,584	\$ 70,344	\$ 68,477	\$ 11,451
Due to County	0	729,205	729,205	0
Due to Schools	<u>0</u>	<u>856,017</u>	<u>856,017</u>	<u>0</u>
	\$ 9,584	\$ 1,655,566	\$ 1,653,699	\$ 11,451
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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September 29, 2006

To the Supervisor and
Members of the Township Board
Township of Reading

In connection with our audit of the Township of Reading for the year ended March 31, 2006, we would like to make the following comments and recommendations:

1. The Township retains ownership of the parcel of land commonly known as Kimball Pointe, adjacent to the Kimball Camp YMCA Center. This land was acquired in 1987 through a \$100,000 grant, plus \$25,000 from Kimball Camp - - no Township funds were used. Kimball Camp YMCA Center currently utilizes the property as a nature preserve, but there is no written agreement between Kimball Camp and the Township to formally allow this use. We recommend that the appropriate agreement be drafted or else the Township consider deeding the property over to Kimball Camp.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,

Bailey, Hodshire & Company, P.C.
Bailey, Hodshire & Company, P.C.
Certified Public Accountants